

Oil Prices Fall After OPEC Holds Steady

The New York Times

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VIENNA, Sept. 11 — [OPEC](#) said today that it would keep producing oil at current levels even though demand is slowing and inventories are growing, a decision that would seem to set the scene for further declines in oil prices.

The decision was immediately reflected in the energy markets, where oil prices fell to their lowest levels in five months. At the [New York Mercantile Exchange](#), the benchmark oil contract — for light low-sulfur crude to be delivered next month — fell briefly below \$65 a barrel before recovering to close at \$65.60 a barrel, down 65 cents for the day. After peaking at \$77.03 a barrel at the beginning of the July war between Israel and the [Hezbollah](#) militia in Lebanon, benchmark oil prices have now fallen more than \$11 a barrel.

The decision by OPEC means that oil supplies will probably remain ample, despite factors like the partial shutdown of [BP](#)'s operations in Alaska because of pipeline problems, the chronic shortages in Iraq and repeated attacks on oil exporting terminals in Nigeria. Oil inventories in the United States are now at their highest levels since 1998, according to the Department of Energy.

Geopolitical tensions in the Middle East and the threat of another severe hurricane season in the Gulf of Mexico had kept oil markets on edge in recent weeks. But so far, the hurricane season has proven benign, the [United Nations](#) has not moved to sanction Iran over its nuclear enrichment program, and the fighting in Lebanon ended in a cease-fire. OPEC has been pumping oil as fast as at any time since 1979, and the American economy seems to be softening. All these factors have tended to push prices down in recent weeks.

That is obliging OPEC to shift its attention to a question it managed to avoid facing for much of the past year: How much should oil price be allowed to drop before the group steps in and cuts production?

Agreeing on a floor price is not going to be easy, analysts said. Since OPEC scrapped its quota mechanism and opened its spigots all the way last year to restrain soaring prices and meet a surge in oil demand, OPEC ministers have become increasingly comfortable with oil priced above \$70 a barrel, a level that once would have been considered disastrous for the global economy. After that experience, deciding on a “reasonable” new floor to defend will be tricky.

“We will know it when we see it — that’s what we mean when we say reasonable prices,” Edmund Daukoru, Nigeria’s oil minister and the president of OPEC this year, said at a press conference after the meeting in Vienna ended.

Mr. Daukoru repeatedly declined to say specifically at what lower price OPEC would feel compelled to act.

“It’s a feel,” he said. “It’s a feel thing. I cannot put a number.”

Members of the Organization of the Petroleum Exporting Countries, which together account for about 40 percent of global oil exports, are next scheduled to meet in mid-December in Abuja, Nigeria. But they may need to gather earlier if prices keep falling, some OPEC delegates said.

The Iranian oil minister, for example, said that oil prices should not be allowed to fall below \$60 a barrel. And while Chakib Khelil, the Algerian oil minister, saw no need to cut production now, “if there is a deterioration in the global economy and prices fall quickly, then we will need a meeting before December,” Reuters quoted him saying.

Yasser Elguindi, a senior managing director at Medley Global Advisers, a consulting firm for hedge funds, said, “Prices are still high, and OPEC wants them to come down, but it is good for them to start looking at their supplies.”

OPEC’s output quota will remain at 28 million barrels a day for the time being. Including Iraq, which is a member but is not included in the quota system, the 11 nations that make up the cartel are producing about 30 million barrels a day.

“Market fundamentals are very sound,” Ali Al-Naimi, Saudi Arabia’s oil minister, told reporters in Vienna. “We are beginning to see a slight decrease in economic growth, very slight. It is nothing alarming.”

One major consideration for OPEC in the coming months is the knowledge that large amounts of new oil will reach the market from non-OPEC producers next year. The biggest increases are likely to come from Russia, from African producers like Angola, and from the former Soviet republics around the Caspian Sea.

In addition, several OPEC nations plan capacity increases of their own, and alternatives to crude oil like ethanol, biodiesel and liquefied gases are also stepping up supplies.

So if the growth in demand for oil is moderating, as many economists believe, OPEC will probably have to consider cutting production in the coming months to head off a glut that would depress prices. The question is, how much?

“There is no consensus on a price target,” said Vera de Ladoucette, an oil analyst with Cambridge Energy Research Associates. “Saudi Arabia can

worry about oil prices at around \$50 a barrel. But many others will want prices above \$60. Meanwhile, on the market, oil prices are going down — but when consumers go to fill up their tanks, they don't see it much." Analysts estimate that a \$10 drop in crude oil prices will generally translate into a 25-cent decline in the retail pump price of a gallon of gasoline.

Meanwhile, Iraq's oil minister, Hussain Al-Shahristani, told reporters in Vienna that his country needed to invest some \$20 billion to increase its production capacity to 4 million to 4.5 million barrels a day. Iraq currently produces 2.3 million to 2.4 million barrels a day, he said.

"Everyone agrees that the oil sector needs a huge investment, and should be the locomotive of the economy," Mr. Al-Shahristani said. Before the American invasion, Iraq produced about 2.8 million barrels a day. Since then, attacks on the country's export terminals, pipelines and other facilities have crimped its oil output.